**Everything you always wanted to ask about Pure competition that’s left.**

**What does allocative efficiency mean?**

NO Waste---Consumer Surplus and Producer Surplus maximized, no deadweight loss, the unit cost of making the last unit 🡪as MC rises is equal to amount of benefit that the last consumer received from using that last unit (Marginal Benefit).

HINT:

The demand curve for the firm is a horizontal line (derived demand curve), because as far as the firm’s concerned they are a price taker—no influence over the price,

**Graph**

They can’t raise the price because?

They can’t lower the price because?

-The demand curve for the industry is a typical downward sloping demand curve! Implying that some people value the product and therefore are willing to pay a higher price than other people! Many people who purchase the good at the “market price” are getting “surplus value”

**Graph** firms MC, MR, P…on the same graph draw the INDUSTRY DEMAND Curve

-Not all units produced by the firm cost the firm the same amount of $$$, Once LDR sets in, each additional unit cost more $$$ than the last to make!

The next to last hamburger I make cost me $4 extra dollars to produce, the next to last hamburger purchased was “valued” by the consumer at $6.00. So MB>MC, society would be better off if more hamburgers were produced and consumed. The last hamburger I produced cost $5 extra and the next consumer (downward sloping Industry Demand Curve) values it at $5.00 MB=MC

**Graph**- equilibrium position—consumer surplus and producer surplus

**What does Productive Efficiency mean?**

The manufacturer can not find a way to produce the goods they are selling in a more efficient manner. Resources are used in the best combination possible.

Productive efficiency implies that the producer is producing at the minimum point on the SR ATC curve.

The minimum point on the SR ATC curve by definition is the point where?

In pure competition the firms derived! Demand curve is a straight horizontal line, therefore the relationship of Price to Marginal Revenue is?

Since all firms regardless of the type of market they operate in, continue to produce and sell until the cost of producing the next unit is more than the amount of $ they receive for the next unit---or

\_\_\_ = \_\_\_\_

Since P= \_\_\_\_\_

P also = the cost of producing the last unit

If the firm is operating where ATC is not equal to Price they are either operating at a loss meaning- that some firms will (enter?/leave?) the market

**Graph**

If the firm is operating where ATC is not equal to Price they are either operating at a profit meaning- that some firms will (enter?/leave?) the market

**Graph**

In either case- equilibrium will ultimately be reached when ATC=P, which also means ATC=MR, and since they are producing where MR=MC, ATC= MC an ATC only equals MC when?

**Graph** final outcome- showing productive efficiency

**Increasing Cost/Constant Cost/Decreasing Cost industry**

When a purely competitive market the industry expands how does that effect the firms costs of doing business?

**Graph a Demand Supply curve- Industry and firm**

*Show the demand curve expanding and its effect on price and profit-> leads to a shift in the supply curve as more firms enter the market.*

Will the new firms cost curves stay the same or will pressure from resource prices cause the costs for the firm to increase?

How many of the firms in the market will be effected by this resource cost change?

**Graph**-

Do some firms adapt to change in demand and resource cost through entrepreneurial ability and if so how does that effect the cost for the firm?

**Graph**-

What happens if the market expands but there is no additional pressure on resource costs to the firm?

**Graph**